

Message Text

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11
ACTION EB-07

INFO OCT-01 EA-07 ISO-00 SP-02 USIA-06 AID-05 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 /075 W
----- 027689

R 270030Z JUL 76
FM AMEMBASSY PORT MORESBY
TO SECSTATE WASHDC 1655
INFO AMEMBASSY CANBERRA
AMCONSUL HONG KONG
AMEMBASSY KUALA LUMPUR
AMEMBASSY MANILA
AMEMBASSY SUVA
AMCONSUL SYDNEY
AMEMBASSY TOKYO
AMEMBASSY WELLINGTON
DEPARTMENT OF TREASURY
DEPARTMENT OF COMMERCE
CINCPACREP GUAM/TTPI

LIMITED OFFICIAL USE PORT MORESBY 0742

CINCPACREP PLS PASS TO STATUS LNO SAIPAN

PASS EXIM BANK

E.O. 11652: NA
TAGS: EFIN, PP
SUBJ: PNG KINA REVALUED UPWARDS BY FIVE PERCENT

1. SUMMARY: THE PNG KINA, FORMERLY LINKED TO AUSTRALIAN
DOLLAR, WAS REVALUED UPWARDS BY FIVE PERCENT EFFECTIVE
IMMEDIATELY. REVALUATION WILL MAKE IMPORTS CHEAPER,
PUSH PURCHASING POWER OF WAGES UP, AND POSSIBLY SLOW
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FURTHER THE RATE OF FOREIGN INVESTMENT IN PNG.

END SUMMARY.

2. DETERMINATION TO REVALUE KINA BY FIVE PERCENT WAS SIGNED DURING WEEKEND BY GOVERNOR-GENERAL SIR JOHN GUISE. MOVE IS IN LINE WITH GOVERNMENT'S HARD CURRENCY STRATEGY ADOPTED WHEN KINA WAS INTRODUCED IN APRIL 1975. FINANCE MINISTER JULIUS CHAN SAID TIMING OF DECISION REFLECTED IMPROVING WORLD COMMODITY MARKETS, STRONGER BALANCE OF PAYMENTS POSITION AND PROSPECT OF MORE BUOYANT GOVERNMENT REVENUE. ACCORDING TO PRESS REPORTS, OPPOSITION ALSO WELCOMED REVALUATION.

3. IN A STATEMENT FROM NAURU WHERE PRIME MINISTER MICHAEL SOMARE IS ATTENDING ANNUAL MEETING OF SOUTH PACIFIC FORUM, SOMARE SAID REVALUATION CLEARLY SHOWED GOVERNMENT'S CAPACITY TO IMPLEMENT ITS POLICIES AND ACHIEVE ITS GOALS. HE SAID REVALUATION WOULD HELP CONTROL PRICE MEASURES AND ALLOW NEXT WEEK'S BUDGET TO ACHIEVE MORE DEVELOPMENT. HE ADDED THAT HE WAS PLEASED DECISION TO REVALUE KINA WOULD REWARD BUSINESSMEN WHO HAD SHOWN CONFIDENCE IN COUNTRY AND PLACE PENALTY ON THOSE WHO HAD NOT.

4. CHAN NOTED SPECIAL PROBLEM EXISTED FOR EXPORTERS WHO HAD NOT YET RECEIVED FOREIGN EXCHANGE PROCEEDS FROM SALES COMMITMENTS THEY HAD ENTERED INTO AT GIVEN PRICE IN FOREIGN EXCHANGE. HE SAID SUCH EXPORTERS COULD BE HARD HIT BY REVALUATION AS THEY HAD NOT HAD ACCESS TO AN EXCHANGE LOSS COVER. IN COFFEE, COCOA AND OTHER AGRICULTURAL COMMODITY TRADE WHERE IT IS NORMAL PRACTICE TO TAKE OUT FORWARD COVER, CHAN SAID HE EXPECTED COMPENSATION TO BE AVAILABLE. CLAIMS ARE NOW BEING SUBMITTED BY EXPORTERS FOR SALES MADE BEFORE NOON JULY 25. CHAN PROMISED THAT GOVERNMENT WOULD "ENSURE THAT NO SUCH EXPORTERS WILL BE WORSE OFF OVERALL AS A RESULT OF THE DECISION." HE ADDED THAT A FORWARD COVER FACILITY WOULD NOW BE AVAILABLE FROM COMMERCIAL BANKS IN PNG.

5. COMMENT: FINMIN CHAN GAVE SUDDENLY CALLED LUNCHEON LIMITED OFFICIAL USE

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FOR TOP BANKERS ON JULY 25. TO A MAN THEY ANTICIPATED HE INTENDED TO ANNOUNCE DEVALUATION AND WERE DUMB-FOUNDED WHEN HE TOLD THEM THERE WOULD BE SMALL UPWARD REVALUATION. CHAN HAD MUCH LARGER LUNCHEON JULY 26 FOR BUSINESS COMMUNITY, TOP OFFICIALS AND DIPLOMATIC CORPS. IN PRE-LUNCHEON CONVERSATION AND DURING FORMAL SPEECH ON JULY 26 CHAN MADE CLEAR THAT
1) UPWARD SWING IN EXPORT PRICES (ESPECIALLY COPPER)

HAD MADE HIM BELIEVE UPWARD REVALUATION COULD BE UNDERTAKEN, 2) HE BELIEVED THIS STEP WOULD ALLOW WIDESPREAD DISTRIBUTION OF GAINS IN HIGHER EXPORT PRICES AND 3) HE SAW THIS STEP AS A MEANS OF COUNTERING RECENT PRESSURES FOR HIGHER WAGES. CONVERSATION WITH OTHERS INDICATED CHAN INTENDS TO BRING A BALANCED BUDGET IN UPCOMING SESSION OF PARLIAMENT WHICH, ALONG WITH UPWARD REVALUATION OF KINA, IS INTENDED TO KEEP PNG ON VERY SOUND FINANCIAL BASIS.

6. TWO IMPONDERABLES AT THIS POINT ARE: FIRST, THE EFFECT OF REVALUATION ON AUSTRALIAN AID PROGRAM AND, SECOND, THE EFFECT ON DIRECT FOREIGN INVESTMENT. ON FORMER QUESTION, GOA HAS PROMISED TO TAKE INFLATION INTO CONSIDERATION WHEN DETERMINING ITS AID SUBVENTION. HOWEVER, REVALUATION TO OUR KNOWLEDGE WAS NOT CONSIDERED AND, CONSEQUENTLY, IF NO ADDITIONAL FUNDS ARE PROVIDED, AUSTRALIAN AID FUNDS WILL BE EFFECTIVELY CUT (ON EXPENDITURES WITHIN COUNTRY) BY FIVE PERCENT. EFFECT ON FOREIGN DIRECT INVESTMENT COULD ALSO POSE PROBLEM. SEVERAL U.S. COMMERCIAL BANKERS VOICED BELIEF IN RECENT CONVERSATIONS WITH EMBOFFS THAT KINA WAS OVERVALUED AND EVEN WITHOUT PROBLEM OF RECENT INDEPENDENCE, ETC., THEY BELIEVED LARGE SCALE PROJECTS WOULD GO FORWARD MORE EASILY WITH DEVALUATION OF KINA. THUS REVALUATION MAY IMPEDE IMPROVEMENT OF ALREADY RELATIVELY WEAK FOREIGN INVESTMENT CLIMATE.

7. AIRGRAM WILL FOLLOW WITH FURTHER ANALYSIS OF EFFECTS OF REVALUATION.
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Draft Date: 27 JUL 1976
Decaption Date: 01 JAN 1960
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Disposition Action: RELEASED
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Disposition Date: 28 MAY 2004
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Disposition History: n/a
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Disposition Remarks:
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Executive Order: N/A
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Margaret P. Grafeld
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